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BEFORE THE
DEPARTMENT OF TRANSPORTATION
Washington, D.C. 20590

DEPT. OF TRANSPORTATION
DOCKET SECTION

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Notice of Proposed Rulemaking
Notice 97-91
Computer Reservations Systems (CRS)
Regulations

Docket OST 97-2881

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COMMENTS OF
ALOHA AIRLINES, EMIRATES AIRLINES,
SAUDI ARABIAN AIRLINES CORPORATION,
TACA INTERNATIONAL AIRLINES and
VIRGIN ATLANTIC AIRWAYS, LTD.

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**Comments of Aloha Airlines, Emirates Airlines, Saudi Arabian Airlines Corporation,
TACA International Airlines and Virgin Atlantic Airways Ltd.**

INTRODUCTION

The Department ("DOT") has instituted this Advanced Notice of Proposed Rule Making ("ANRPM") to determine if and to what extent its existing rules regarding Computerized Reservations Systems ("CRS") Regulations should be modified and or continued. The ANPRM is taking a broad look at almost all CRS activities. The airlines filing these comments are concerned with only one particular aspect of the Rules, the distribution of information from the CRSs as governed by *Section 255.10 Marketing and booking information*.

These comments are made on behalf of five airlines, Aloha Airlines, Emirates Airlines, Saudi Arabian Airlines Corporation, TACA International Airlines and Virgin Atlantic Airways Ltd, who are interested in a single issue, the accessibility of the relevant Marketing Information Data Tape

(MIDT) data at a reasonable cost. The CRS Regulations, including Section 255.10, were introduced so ensure that the CRSs, and their owners, did not use the systems to unreasonably prejudice the position of other airlines or provide misleading or inaccurate information to travel agents and passengers. Due to the way in which the MIDT data produced by these systems is priced and the minimum contract obligations in some of the CRS Participating Airline

Agreements, the smaller airlines are being disadvantaged. The high cost of the data makes it difficult for smaller airlines to obtain the data and play on a level playing field.

Managers make decisions. In order to make good decisions they need good information. The data in the MIDT shows the bookings made on the hundreds of participating airlines¹ in each CRS. These bookings are made by travel agents who sell more than 70% of airline seats. The information about the bookings they make, and those made by individuals through the Internet or on-line services on a CRS, are captured as soon as they are made, by the CRSs. This provides the purchasers of the MIDT with the most current and significant marketing data available in the industry for all participating carriers in the CRSs.

The CRSs collect all of the data generated in each of their systems by the travel agents and other users who make bookings in their system. The collected data is commonly known as the MIDT. The data contains all the elements that complete a Passenger Name Record (PNR), with the

¹ A participating airline has agreed to have its schedules and availability shown in a CRS system. They have agreed to pay the CRS a fee for each booking or transaction processed by the CRS.

exception, in most of the systems, of the passenger's name². They show the transaction date, departure and arrival airports, airline codes, flight number, flight departure and arrival dates, number of passengers in the party, class of service, PNR record locator number, the status of the booking at the end of the transaction (e.g. HK, SS, WL, GK), the pseudo city code given to an agency by the CRS³, the agency IATA number⁴, the agency name, and an indicator of whether the booking is new or a cancel. While there are some variations among the CRSs in what is collected the essential information is all the same.

It is believed that fewer than 20 airlines buy the MIDT information from the four CRSs. Most airlines will consolidate the data from all the CRSs into a single data base. Then it will be combined with their own internal reservations data. It will be fine tuned by comparing the booked data with flown data. The combined totals show an accurate and timely picture of what is happening in the industry in all but the Asian markets⁵. In the domestic U.S. market it provides an almost perfect overview of what each travel agent is doing for each airline.

² Worldspan sells the MIDT with passenger names in certain circumstances.

³ The designation given to an agency, or other booking site, by a CRS which identifies the location of the site and its terminals.

⁴ A number given to an agency by IATA or ARC which identifies the agency and its location.

⁵ While the principle Asian CRSs do not provide this data, the four major CRS systems do have locations in Asian countries which provide a certain amount of data.

In some applications, such as the analysis of sales made by a travel agent, it gives the airline who has access to the data virtually total knowledge of what is happening. Airlines who have this information can determine, with a good degree of precision, almost immediately, the results of their actions. They can decide on a targeted basis what they need to do to improve their position and how to frustrate their less well informed competitors.

CRS data can be downloaded as often as three times a day. It can also be acquired on a daily, weekly or monthly basis. Since the MIDT captures all the activity, sales and cancellations, made by all agents on the system, airlines can use it for a number of analyses. The sales/cancellations transactions can be combined with other data such as the schedules from the OAG, so that comparison of traffic and capacity in a market or a city can be made. The MIDT can, for example, be used:

- To show the sales at each agency location, by airline, by route and by fare basis. When combined with airline schedule data, the traffic share can be compared with the airline's seat share. This information is used to determine which agents are selling to an airline's destinations so that more effective sales calls can be planned. It can be used to establish or rescind incentive commissions for travel agents.
- To aggregate traffic flows over alternative routings to determine where to schedule new routes or where and when to change capacity in a market. It is invaluable in determining which airlines would be the most effective alliance partners in building comprehensive worldwide networks.

- To determine the buying patterns of customers, by airline. The data show how long before departure passengers made their reservations, how long they are planning to stay and if they were staying over a weekend. This allows the development of more competitive fares and marketing strategies.
- To perform live market research. This data will show the effects of a fare change in one city but not in another, the impact of advertising on sales, and almost any other change

that an airline makes. Since it is data for all but a small fraction of the industry it can be used to measure the effect of a competitor's actions as well as your own.

Most airlines using the MIDT data have it processed by a third party vendor. The airline buys the data from the CRS and has it delivered to the processing vendor, who in some cases is a CRS affiliate. The vendor purges and consolidates information based on the airline's instructions. Sales will be netted with cancellations, passive segments will be cancelled or included as desired by the airline based on its experience. The reconstructed data is then provided to the airline based on the processing purchased. Different data bases will normally be constructed for different end uses, such as sales analysis, route planning or special marketing studies.

The MIDT data is both historical and prospective. The data captured on a specific date shows, when aggregated with prior sales and cancellations, the final booking status for flights as of that date. The CRSs also capture advanced booking data. According to articles in the trade press⁶, the

⁶ Travel Distribution Report, March 27, 1997

knowledge of these advanced bookings has been used by some airlines in an attempt to shift traffic from a booked airline to the airline that possesses the knowledge of the reservations. This is clearly an indication of the type of market power that exists for those who have this information.

Airlines who can afford this data have been able to make intelligent decisions while those who do not have it remain blind. While the data is not perfect, it is the most informative that has ever been available, on a timely basis, for sales, marketing and planning. In the current environment there are "have" and "have not" airlines. The "haves" are typically the airlines who do own part of a CRS and who have sales of more than \$3,000,000,000.

DISCUSSION

1. Should the rules be continued? If so, for how long? Should another review be required and, if so, when?

The CRS rules were adopted because of, among other reasons, the need to prevent the CRS owner airlines from prejudicing the competitive position of other airlines. This continues to be a legitimate goal for the Department as the CRS systems still have market power over the airlines that use them. Examples of the market power of CRSs and their airline owners, who use the MIDT data have been shown in these comments.

We suggest that the rules be continued for another five years at which time there should be another review as to the need for continuing the rules.

2. Section 255.10 of the current Rules (the Rule) governs marketing and booking information generated by the CRSs. This Rule has not been effective in preventing the largest airlines, who are CRS owners, from gaining significant market knowledge advantages as compared with smaller airlines. It has not provided the smaller airlines with equal access to the most important data available to airlines today on a comparably priced basis.

The Rule, with caveats regarding reciprocity and notice, states that CRSs, "...shall make available to allparticipating carriers on a nondiscriminatory terms all marketing, booking, and sales data relating to carriers that it elects to generate from its system." The systems have complied with this part of the regulation. The problems stems from the way in which some CRS sell the data and the total cost for acquiring the necessary data. In today's competitive market the MIDT data provides essential information. Many airlines do not have the data because of the way in which it is sold. The high costs of buying the data prevents them from having and using it.

The four major CRSs, Sabre, Galileo⁷, Amadeus and Worldspan sell MIDT data⁸. The cost of acquiring all the data from these systems, which is generally necessary for airlines with an international traffic component, and who want to do schedule and route planning, will exceed \$1,500,000 annually. In addition to the cost of acquisition is the cost of processing the data, approximately another \$300,000 annually and then there is the cost of analyzing the data.

⁷ Includes Apollo.

⁸ The Asian CRSs, Abacus, Infini and Axxess do not sell their MIDT data at this time.

The data sold by the CRSs is typically grouped together geographically. Generally there is a domestic U.S. module and an international module. There are variations between the CRSs as to where the data is collected from. There is also a combination report which shows all flights sold by all users of a system. For planning activities all airlines that interline, which is most airlines, and all the airlines responding in these comments, need to purchase the combined data from all the CRSs. This is the only way to get a complete picture of what is happening on all routes served by the airline. However, only a small percentage of the total data captured is ever needed by any airline.

Current fees for purchasing the tapes vary by CRS. Some charge a flat fee per geographic region, others charge based on the number of pseudo city codes⁹ in the report. On average the cost comes out to a little over a dollar per month for each pseudo city code. As of October 1996 it was estimated that the four major CRSs had a total of 117,000 agency locations amongst them¹⁰. Over a year the total cost for buying all the data comes out to over \$1,500,000 for the four CRSs.

Two CRSs, Sabre¹¹ and Worldspan¹², sell respectively, a "Customized MIDT" and a "Selected

⁹ A pseudo city code is an address assigned to the terminals physically located in a travel agency location by a CRS as a means of identification where bookings are made. Interactive Internet systems, such as Prodigy has also been assigned pseudo city codes.

¹⁰ This would include some agencies with more than one CRS system. Some systems also charge for each user ID when a reservation is made by an individual using an on-line system such as Prodigy.

¹¹ The Sabre contract requires that the data be purchased for a minimum of three months.

¹² Worldspan requires that data be purchased for a minimum of one year. This provision raises the barrier to acquiring the MIDT data by increasing the total annual cost of acquiring the data.

MIDT" which allows the purchaser to select his own data. Galileo and Amadeus ¹³ do not offer this option. The customer selected MIDT allows an airline purchaser to define a set of parameters, such as agency locations in a geographic area which sell the most passengers to particular destinations or airport-pairs and ask for the data for those specific items. While this is a good step forward, and offers cost savings as compared with buying all the data, it is still an expensive process and there are limits on the way the data can be processed and combined on a cost effective basis, particularly for doing route analysis. The CRS systems who offer this service do so through preferred suppliers who appear to have exclusive contracts.

The current rule does not recognize the cost barriers faced by smaller airlines who need access to the MIDT particularly when the larger carriers already have access to it. No airline needs all the data. The airlines commenting in this document need only relatively small pieces of it. As shown below, their relative cost will generally be 10 to 20 times the cost of one of the major CRS owners. The data needs to be made available to all reciprocating carriers on a more fair, equitable and cost effective basis.

RELATIVE COST OF BUYING THE MIDT FROM THE FOUR MAJOR CRS SYSTEMS					
Airlines Using MIDT	1995 Revenues (000,000)	Cost of MIDT as a % of Revenue	Commenting Airlines	1995 Revenues (000,000)	Cost of MIDT as a % of Revenue
American	\$16,190	.0001%	Saudi Arabian	\$2,550	.0006%
United	14,943	.0001%	Virgin Atlantic	705	.0021%
Delta	12,194	.0001%	Emirates	682	.0022%
Northwest	9,084	.0002%	TACA Int'l	179	.0083%

¹³ System One has offered a customized MIDT in the past. With the integration of System One into Amadeus this apparently will cease.

3. Are System Owners Or Other Airlines Using The Data In Ways That May Prejudice Airline Competition? If So, How Should The Rule Be Changed?

The "Introduction" to these comments discussed the ways in which the users of the MIDT have been able to make better decisions because they knew what was happening to the total market.

The market knowledge advantages a carrier who uses the MIDT has are significant. The airlines commenting in this document believe that changes in the Rules need to be made to allow all airlines, and other entities as appropriate, to operate on a level playing field.

Airlines who buy the large geographical pieces of the MIDT Data acquire all the records of sales made in a geographic location over a period of time. They can take this data and have it processed in different ways to achieve different objectives. Smaller airlines need this same flexibility if they are to have knowledge parity about their markets.

While the Customized and Selected MIDT offered by Sabre and Worldspan is an improvement, it does not provide an equivalent and competitive product. Better alternatives are required.

Rule 255.10 needs to include provisions which would allow reciprocating airlines to select data records from all locations, with all information on them, for specific markets defined by the purchaser. The data they get from this processing should possess the same market knowledge the existing purchasers acquire.

The cost to an airline of buying data should be roughly proportional to its percentage of the total MIDT data acquired. No airline needs to use all the data available. A fair method would be to have all airlines, including the CRS owning airlines, buy the data on the same basis and pay the same price for a record. This would be similar to the existing rules for participating airlines in which each is charged the same price for the generation of a booking. In this way a commuter airline who needs only .001% of the data base would know as much about his markets as an airline who had 20.0% of the total market. Each airline would be paying a fair price for what it acquired. The market would be better served because the providers would have better knowledge of what the customers wanted and there could be real competition.

The cost to a CRS of downloading its MIDT records is not that high; it is the cost of the machine time and recording materials. More important is the value the CRSs have created in developing their entire system which acquire and manipulate the data on a current basis. They can recover both the real and intangible cost by being paid for the number of records that are used by an airline. We expect hundreds of airlines would buy the data if it was made available in flexible formats at reasonable costs. This data is so valuable, to all airlines in the world, that the CRSs will likely achieve a higher total revenue from the sale of the data this way than the restricted way in which it is currently sold. Since no airline needs all of the data collected it is possible that all the existing purchasers will save money if a more equitable sales scheme is made possible.

The following system could provide the necessary benefits for all airlines and would probably benefit the CRSs as well:

- Third party processors, including CRS affiliates, should be allowed to acquire all the data from all the selling CRSs. Data should be made available at least daily. The CRS's fee should be sufficient to cover the cost of the downloading, the physical disks for recording the information, other processing costs and a profit.
- The CRSs would publish a price per net record, just as it publishes its booking fees.
- Airlines should then be allowed to purchase the data they desire from any processor.
- The processor will keep track of the records processed from each CRS, by each airline.
- The airline purchaser will pay the processor a fee for each CRS record retrieved. The fees could be different for each CRS. The processor will pay the CRS for each record used by each airline. It would also charge its own processing fee to the subscribing airline.
- The competition for good information at competitive prices will be at the processors level. Airlines will pay for what they use.

This system will allow all reciprocating airlines to acquire this basic marketing data at a reasonable cost. The cost for current subscribers will probably go down. No airline will have a significant competitive advantage and competition in the industry will be enhanced.

4. Proposed Regulatory Language Changes

The revised regulation should allow each airline to pay for the amount of data it uses. Everyone who reciprocates, should have equal access to the data, and the ability to have it processed by a

vendor of its own choice. Small airlines should no longer be disadvantaged by the current pricing scheme which makes obtaining this data impossible for most.

Sections 255.10 should be changed to include language similar to the following:

(d) Each CRS will sell all their marketing data to any processor who agrees to make it available only to airlines in accordance with paragraphs (a), (b), and (c) of this section.

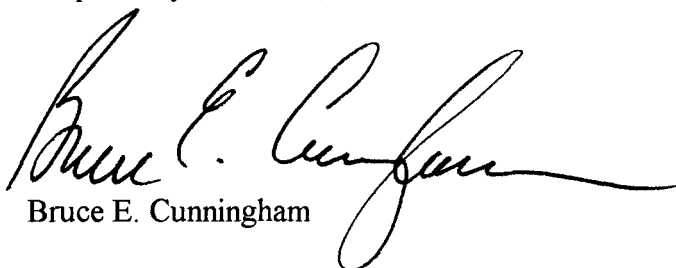
CRSs will charge a standard price per net record to all final purchasers. Airlines who buy the data will pay the processor the CRSs standard price as a royalty fee to be passed back to each CRS based on the number of records used.

CONCLUSION

The current rules regarding the sale of marketing and booking information by the CRSs and the economies of scale enjoyed by the largest airlines allow them to gain a competitive advantage over smaller airlines. The knowledge advantage provided by having access to the MIDT data is substantial. It is probably the most important marketing data ever used in the airline industry. If there is going to be a fully competitive industry then each airline must be allowed to have access to the same market knowledge at a relatively equal cost. The data can not be preserved for the few by pricing it at levels only the largest can afford.

Therefore, Aloha Airlines, Emirates Airlines, Saudi Arabian Airlines Corporation, TACA International Airlines and Virgin Atlantic Airways Ltd. all urge DOT to modify Rule 255.10 to allow all airlines, who provide reciprocating data, equal access to the information provided by the MIDT.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bruce E. Cunningham", with a long horizontal flourish extending to the right.

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